

networks. Thus, to the extent ISP traffic is similar to local traffic – and in important respects it is not – it necessarily is also similar to FG-A access traffic.<sup>27</sup> Access traffic, though, is not subject to reciprocal compensation. The Commission specifically rejected arguments that reciprocal compensation should apply to access traffic, even though it recognized the similarities between local traffic and access traffic generally (including non-FG-A access traffic).<sup>28</sup> Thus, the comparison to local traffic goes nowhere.

## **2. Other CLEC Arguments are Equally Meritless**

Although CLECs for the most part base their reciprocal compensation proposal on a misconceived comparison of local traffic and ISP traffic, they do, as noted, make a number of other arguments, as well. These arguments, too, are flawed.

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<sup>27</sup> Fundamentally, the only difference between ISP traffic and other interstate access traffic is in the price list applicable to each. See US West Comments at 5-6. ISPs may purchase services from intrastate tariffs, while users of other interstate access services purchase their services from interstate tariffs. Users who originate ISP access and other forms of interstate access services do not generally pay usage-based revenues to the originating LEC; however, in some cases they do. Specifically, if the originating user dials a FG-A access number or an ISP, the user might be charged a usage-based rate by the originating LEC. If the call is a FG-A call, the originating LEC credits the revenue derived therefrom against the access charges paid by the purchaser of the access service. Since ISPs do not pay Part 69 access charges, they do not receive the same credit.

<sup>28</sup> *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, 11 FCC Rcd 15499 (1996) (*Local Competition Order*) at para. 1033. In recognition of the similarities between local and access traffic, the Commission observed that ultimately the rates that local carrier impose for the transport and termination of local traffic and for the transport and delivery of long distance traffic should converge. *Id*

**(a) Competition, Not Inflated Reciprocal Compensation Revenues, Will Promote Efficiency.**

One such argument is that subjecting ISP traffic to reciprocal compensation would promote efficiency goals by compensating CLECs at TELRIC rates.<sup>29</sup> This argument is specious.

As an initial matter, the assertion that CLECs should be compensated at TELRIC rates completely begs the question of who should pay that compensation. It ignores, in particular, the fundamental question in this proceeding, which is, why should consumers finance free access service for ISPs?

This question is particularly pertinent because the notion that the Commission's reciprocal compensation regime would merely compensate CLECs for their costs is incorrect. While, theoretically, and as a matter of law, reciprocal compensation payments are supposed to reflect the costs of the carrier receiving them, the reality is that they do not. Under the Commission's reciprocal compensation rules, which CLECs uniformly argue should be extended to ISP traffic,<sup>30</sup> CLECs have the option of relying on ILEC cost studies or submitting their own. Whether or not this rule systematically over-compensates CLECs for

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<sup>29</sup> See, e.g. ALTS Comments at 10 ("Rates set by regulation must be based on cost, preferably forward-looking cost, in order to promote competition and ensure efficient outcomes. ...No proposal presented in this proceeding for the terms and conditions under which carriers should exchange ISP-bound traffic that diverges from forward-looking costs should be given serious consideration.") See also Time Warner Comments at 8 (arguing that cost-based rates send accurate pricing signals which promote efficient market outcomes).

<sup>30</sup> See, e.g., Lightpath Comments, Attachment 2 at 12 (accusing Bell Atlantic of attempting to "foist" cost studies on CLECs).

terminating local traffic is beyond the scope of this proceeding. One thing is clear, however. It surely over-compensates them for ISP traffic. As discussed above, CLECs can take advantage of a number of cost-savings when they serve an ISP – cost savings that are not available when terminating more diffuse local traffic. These savings permit them to avoid “huge transmission costs” and to reduce substantially their switching costs. Indeed, under the circumstances, using ILEC costs of terminating local traffic as a surrogate for CLEC costs of delivering ISP traffic is like using the costs of providing local service in North Dakota as a basis for estimating the costs of serving Wall Street.

This is not mere speculation. The proof is in the pudding. During the first quarter of 1998, Global NAPs collected \$3.125 million in reciprocal compensation payments from Bell Atlantic on direct costs of only \$267,000. If reciprocal compensation merely provides CLECs with TELRIC-based cost recovery, how could Global NAPs’ reciprocal compensation revenues exceed its total direct costs of doing business by more than twelve-fold?

Even assuming, however, that reciprocal compensation payments bore any relationship to the CLECs’ actual costs, that would hardly warrant a conclusion that reciprocal compensation promotes efficiency. Efficiency is driven by competition, not guaranteed cost recovery. In a competitive market, no carrier is guaranteed full cost recovery; only those carriers who can deliver services efficiently are able to recover their costs. While Ameritech has no doubt

that a number of CLECs can and do serve the ISP market at very low cost, it sees no reason why CLECs should enjoy regulatory protection from inefficiency.

The only way to promote efficiency in the ISP market is through a regulatory regime that permits meaningful competition among all carriers who seek to deliver traffic to ISPs. Reciprocal compensation – indeed, any inter-carrier compensation regime – effectively precludes such competition. Far from promoting efficiency, it breeds inefficiency.

**(b) The Suggestion that Extending Reciprocal Compensation to ISP Traffic Would Drive Down Interconnection Rates Generally is a Red Herring.**

CLECs also contend that extending reciprocal compensation to ISP traffic would “have a downward effect on interconnection rates generally.”<sup>31</sup> They argue that “if the ILECs are compelled to pay symmetrical reciprocal compensation based on the results of their own TELRIC studies, and those same cost studies are used to determine all interconnection rates, the ILECs may be incented to file cost studies supporting interconnection rates lower than those currently adopted in the states.”<sup>32</sup>

This argument is a red herring. The twin premises underlying this argument are that ILECs have both the incentive and the ability to manipulate

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<sup>31</sup> See, e.g. MCI WorldCom Comments at 18.

<sup>32</sup> *Id.* See also ICG Comments at 8 (“A requirement of consistency will place the ILECs on clear notice that they must file accurate cost studies because the cost studies will be applied, without discrimination, to ILECs as net payers and as payees.”)

state regulators into approving excessive reciprocal compensation rates.<sup>33</sup> Both of these assumptions are wrong. Ameritech has no incentive to seek excessive, non-cost based reciprocal compensation rates because, even without ISP traffic, Ameritech pays *more* in reciprocal compensation than it receives – including when wireless traffic is taken into account. Specifically, in 1998, Ameritech's total reciprocal compensation expense, excluding ISP traffic was \$64.2 million. Its total reciprocal compensation revenues, including wireless traffic, were \$50.2 million.<sup>34</sup>

Nor does Ameritech have the ability to “manipulate” state commissions into approving inflated reciprocal compensation rates even if it wanted to. Reciprocal compensation rates are based on federal standards, and state regulators are more than competent to apply these standards. Indeed, a number of CLECs, who, in one breath, claim that states are subject to “manipulation” by ILECs, in the next breath tout the merits of existing reciprocal compensation rates. For example, ICG states: “the reciprocal compensation rates that currently

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<sup>33</sup> *Id.* at 9 (“a perfectly efficient rate structure or rate will prove elusive as long as one party in the process has the incentive and ability to manipulate the data on which regulators must rely.”)

<sup>34</sup> The fact that Ameritech currently pays more in reciprocal compensation than it receives does not mean that Ameritech supports bill and keep for all local traffic. Ameritech initially opposed mandatory bill and keep because of concerns that CLECs would game the competitive process by, for example, focusing their efforts on businesses that make large numbers of calls at usage-sensitive rates (or over high-capacity lines) to consumers who pay nothing for receiving such calls. In that scenario, reciprocal compensation is necessary because the CLEC would obtain significant originating revenue while the ILEC would obtain no terminating revenue. The fact that Ameritech currently pays more in reciprocal compensation than it receives has not alleviated these concerns. To the contrary, the improper attempt by CLECs to turn ISP traffic into a gigantic arbitrage opportunity only corroborates the legitimacy of concerns that CLECs would abuse a bill and keep mechanism.

apply have the virtue of being, for the most part, reasonable efforts by regulators to set a nondiscriminatory, cost-based rates [sic] using the FCC's Telecommunications Act rules as a guide. The Commission should build on the existing rates."<sup>35</sup>

In any event, the suggestion that requiring ILECs to pay symmetrical reciprocal compensation for ISP traffic will neutralize ILEC bargaining power is just a smoke screen. CLECs have no interest in lower reciprocal compensation rates, particularly if they can receive reciprocal compensation for ISP traffic. That much is evident by the chorus of CLECs who "remind" the Commission that states may mandate bill and keep only when the traffic is balanced – which would never be the case if ISP traffic were made subject to reciprocal compensation.<sup>36</sup> What CLECs do seek is a boondoggle, a gigantic subsidy, and, from their perspective, the more the better. That is why they want reciprocal compensation for ISP traffic, and this is why they argue for symmetrical reciprocal compensation rates.

**(c) ILECs Incur Additional Costs and Revenue Shortfalls When CLECs Win ISP Business.**

Some CLECs also argue that reciprocal compensation payments are necessary to deny ILECs an unwarranted windfall. They claim that when an ISP

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<sup>35</sup> ICG Comments at 5-6.

<sup>36</sup> See e.g. ALTS Comments at n.10; RCN Telecom Services Comments at 4; MCI WorldCom Comments at 11; CompTel Comments at 14.

is served by a CLEC, rather than the originating ILEC, the ILEC avoids the costs of transporting and delivering the traffic to the ISP.”<sup>37</sup>

This argument is fallacious. Aside from the fact that it fails to take into account that the LEC also loses the revenues from the ISP, it is by no means clear that the LEC saves any costs. Because many consumers are served by the same end office switch as their ISP, a LEC that serves both the consumer and the ISP need not establish a trunk circuit or incur any transport costs when the LEC handles that traffic by itself.<sup>38</sup> If another LEC wins the ISP’s business, however, the originating LEC must perform both these functions, thereby incurring *additional* costs. It is not clear whether these additional costs incurred for calls that would have been intra-switch outweigh any savings from inter-switch calls. What is clear, however, is that reciprocal compensation payments would be grossly in excess of any net savings, assuming there are any savings at all.

More fundamentally, any talk of a windfall is completely misplaced. As Ameritech showed in its comments, the costs of originating ISP traffic exceed the revenues, even without reciprocal compensation. If this loss is slightly reduced when a CLEC serves the ISP, that is hardly reason to compound it exponentially by imposing a reciprocal compensation obligation.

Global NAPs also suggests that the CLECs’ provision of service to ISPs has saved ILECs “millions of dollars in cost that they would have had to incur in

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<sup>37</sup> See Global NAPs Comments, Exhibit 2, Affidavit of Lee Selwyn, at para. 8.

<sup>38</sup> Approximately one third of the local calls originated by Ameritech terminate in the same end office.

order to meet the ever-increasing demand for dial-up Internet access.”<sup>39</sup> This contention is grossly exaggerated. Internet traffic does not disappear when a CLEC signs up an ISP as customer; it is simply transferred from the switch that serves the ISP to the switch serving the CLEC’s local interconnection facilities. Indeed, that transfer actually exacerbates network congestion problems. That is because, without the transfer, a sizable percentage of the calls to the ISP would have been intra-switch and not routed over interoffice facilities, whereas when a CLEC serves the ISP, nearly all Internet traffic must be routed over ILEC interoffice facilities. The fact that CLEC interconnection facilities are often served by tandem switches only further exacerbates these network congestion problems. For this reason, Ameritech has invested tens of millions of dollars in network upgrades in each of the last two years in order to handle the explosion of dial-up ISP traffic, notwithstanding the fact that CLECs have won a substantial amount of ISP business.<sup>40</sup>

In any event, the implication that ILECs should pay reciprocal compensation because they have been spared the cost upgrading their networks to handle ISP traffic is ridiculous. It is akin to arguing that General Motors

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<sup>39</sup> Global NAPs Comments at 4-5. Global NAPs submits a chart that purports to show that CLECs in the Bell Atlantic region serve ISPs accounting for more than 75% of ISP traffic in that region. See Global NAPs Comments, Exhibit 1, para. 25.

<sup>40</sup> See also TANE Comments at 2-3 (noting that, although call volumes have remained constant during the past two years, two of its members were forced to increase their number of trunks by 50-100% to accommodate dramatically increased holding times). TANE also notes that at least two New England states have launched investigations on congestion in the public switched network caused by the proliferation of Internet usage.



should pay Ford the cost of each car Ford sells because General Motors has been spared the cost of having to manufacture that car itself. Of course, at least in that situation, Ford has won the customer fair and square. In a reciprocal compensation regime, the “competitive” process, such as it is, is rigged.

**(d) CLECs Have No Legitimate Expectation of  
Reciprocal Compensation Revenues for ISP Traffic.**

Cablevision Lightpath (Lightpath) maintains that CLECs have developed business plans and made substantial investments based on the “carefully crafted reciprocal compensation scheme that exists today.”<sup>41</sup> It asserts that removing ISP-bound calls from this scheme would undermine CLEC expectations and threaten investment.

This is nonsense. If indeed Lightpath based its business plan on the assumption that it would receive reciprocal compensation for ISP traffic, it made two mistakes. First, it misread the law, which as the Commission recognizes, does not require reciprocal compensation for ISP traffic. Second, it built a business plan on a disputed interpretation of the law. In this regard, CLECs have been on notice of the ILEC position that reciprocal compensation is not required for ISP traffic since this issue surfaced two years ago. If Lightpath was so foolish as to misread sixty years of precedent and to build a business plan on that misreading, despite clear warning that its reading was disputed, it is hardly appropriate for the federal government to rescue it from its mistakes.

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<sup>41</sup> Lightpath Comments at 3.

In any event, Lightpath is merely pandering. The most recent 10K filed by Cablevision Lightpath last month at the Securities and Exchange Commission makes no mention of the risk of an adverse ruling on reciprocal compensation. Thus either Lightpath's SEC filing runs afoul of the securities laws or it is taking liberties with the facts. Ameritech assumes it is the latter.<sup>42</sup> Moreover, Wall Street came to the conclusion long ago that the ISP reciprocal compensation boondoggle would end.<sup>43</sup> The financing currently available to Lightpath and other CLECs could not possibly be based on false expectations of future reciprocal compensation payments for ISP traffic.

Of course, if Lightpath's ability to attract capital depends upon ISP reciprocal compensation, it is not clear that Lightpath ought to enter the market in the first place. If Lightpath has a viable business plan to compete legitimately, it will readily be able to raise the capital needed to implement such plan. Certainly, access to capital has never been a problem for the CLEC industry. On

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<sup>42</sup> Ameritech's interconnection agreements, including its agreement with Lightpath, contain change of law provisions. While it is actually Lightpath that seeks a change in the law here, rather than protection from a change in the law, as its argument would imply, its assertion that a change in its understanding of the law would have a devastating effect is belied by the fact that Lightpath and dozens of other CLECs have agreed to change of law provisions in their interconnection agreements.

<sup>43</sup> See Legg Mason report, *supra*; see also letter from Dale Robertson, Senior Vice President, SBC, to William E. Kennard, Chairman, FCC, August 14, 1998, submitted in CCB/CPD 97-30, attaching, *inter alia*, a report entitled "What Reciprocal Compensation Means to the CLECs," by James Henry of Bear Stearns, which concludes that ISP-related reciprocal compensation will be greatly diminished in profitability or disappear entirely by year 2000, if not sooner. Significantly, this report further concludes:

the exposure of the CLEC group as a whole is minimal[.] ... It seems that nearly 80% of the reciprocal compensation payments are going to other large carriers like MCI and WorldCom. As such, for the majority of the CLECs, we believe that investors should not lose any sleep over this issue.

the other hand, if Lightpath requires a huge subsidy to attract capital, that would indicate that investors have little faith in the merits of its business plan, apart from that subsidy. If that is the case – and Ameritech assumes it is not – it is not clear how Lightpath’s entry will increase competition.

**(e) ISP Traffic and Local Traffic Can Be Manually Separated, if Necessary, Particularly if the Commission Requires LECs to Take Reasonable Efforts to Identify Their ISP Customers.**

CLECs also claim that it would be impracticable to accord separate treatment to ISP traffic and local traffic. These claims are wholly unsupported and undoubtedly exaggerated.<sup>44</sup> ISP traffic can be easily and inexpensively distinguished for reciprocal compensation purposes provided that the originating LEC can identify telephone numbers assigned to ISPs in its region. In fact, LECs already separate FG-A traffic from local traffic for billing purposes through means that also can be used to separate ISP traffic.

Currently, Ameritech identifies ISP traffic by monitoring the telephone numbers of known ISPs and then manually checking its reciprocal compensation bills to identify calls to those numbers. Once ISP inter-carrier compensation

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<sup>44</sup> In arguing that ISP traffic cannot reasonably be separated from local traffic, CLECs betray their argument that any shortfall in originating LEC revenues should be addressed by state regulators. If the CLECs were right – and ISP traffic could not be separated reliably from local traffic for billing purposes – then any local rate adjustment would have to apply, not only to ISP traffic, but to local traffic as well. In that case, consumers who did not use dial-up ISP access would be forced to subsidize use of the Internet by others. That would hardly be the “efficient outcome” the Commission seeks. In any event, as discussed, the separation process is nowhere near as difficult as CLECs claim, particularly if they cooperate in identifying their ISP customers.

issues have been definitively settled, a simpler mechanism can be used. Specifically, Ameritech can implement in its switches a line class code for ISP traffic. That code would permit Ameritech's switches to distinguish ISP traffic from local traffic for reciprocal compensation purposes. The cost of implementing a new line class code is only about \$200 to \$300 per switch; thus this is a solution that can be implemented by all facilities-based LECs.

Of course, a line class code is effective only to the extent the originating LEC knows the telephone numbers of the ISPs in its local serving areas. While Ameritech believes it has been able to identify most of the ISP numbers in its region, it has no way of knowing for sure whether that is the case. The cooperation of LECs that serve those customers could facilitate this identification process, and, as discussed in Ameritech's comments, should therefore be required.

### **3. Reciprocal Compensation for ISP Traffic Would be Contrary to the Goals of the Act and of this Proceeding.**

In relying primarily on misconceived analogies to local traffic and other inaccurate and irrelevant arguments, CLECs largely avoid the real policy implications of their proposal. Their policy analysis, such as it is, barely scratches the surface.

A case in point is the CLECs' response to anticipated claims that end user rates do not cover the costs of the reciprocal compensation CLECs seek – an issue that relates directly to the Commission's stated goal of rational pricing. Each

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and every CLEC that addressed this issue – and there were many – asserted that this is problem for state regulators to fix. None of them addresses why it is appropriate public policy to raise (and undoubtedly restructure) consumer rates to finance a humongous windfall for CLECs and free access service for ISPs. None explains why it is in the public interest for ISP LECs to enjoy a federal guarantee of full cost recovery (and then some), while originating LECs are relegated to the state regulatory process if their revenues do not cover costs. None pays anything more than lip service to the Commission's objectives of rational pricing, efficient investment, and efficient entry.

The reason CLECs scrupulously avoid in-depth discussion of these issues is quite obvious: their position that reciprocal compensation for ISP traffic would represent an "efficient outcome" is untenable. As GTE put it:

Forcing ILECs to pay compensation for [ISP] traffic produces an arbitrage opportunity of unprecedented magnitude in the communications industry, yielding a net outflow of hundreds of millions of dollars yearly from ILECs to CLECs, without any basis in the CLEC's costs. By cutting sweetheart deals with ISPs, CLECs create staggering traffic imbalances that not only give them insuperable (and unjustified) competitive advantages vis-à-vis ILECs, but have harmful spillover effects that undermine key policy goals of the Telecommunications Act of 1996.<sup>45</sup>

Of course, this short summation by GTE does not even begin to tell the whole story. In reality, as shown herein and in Ameritech's comments, reciprocal compensation for ISP traffic undermines the goals of the Act and every one of the stated goals of this proceeding.

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<sup>45</sup> GTE Comments at 3-4.

**(a) Reciprocal Compensation for ISP Traffic Impedes the Development of Local Competition**

While a reciprocal compensation regime for ISP traffic gives CLECs strong incentives to sign up ISPs, it strips them of any incentive to serve other customers who use dial-up Internet access, including residential customers. The reason is simple: if a CLEC provides originating facilities-based local service to ordinary consumers, it not only loses the reciprocal compensation subsidy for ISP traffic, but puts itself at risk of having to pay that subsidy. As one Wall Street analyst put it, it has the “perverse effect of turning customers from assets into liabilities.”<sup>46</sup>

**(b) Reciprocal Compensation Encourages Inefficient Entry And Deters Efficient Entry**

Reciprocal compensation for ISP traffic is also inconsistent with the Commission’s stated goal of encouraging efficient entry and reducing incentives for inefficient entry in telecommunications markets. Although ISP-related reciprocal compensation unquestionably draws CLECs to the ISP market, it does so indiscriminately – without regard to whether those CLECs can efficiently serve that market. By enabling CLECs to look to their competitors rather than their customers for full cost recovery (and then some), it obviates the need for CLECs to be efficient. At the same time, it denies ILECs that can serve a particular ISP more efficiently the opportunity to do so.

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<sup>46</sup> *Id.* Not only does reciprocal compensation impede the development of local competition, it hits ordinary consumers with a “double whammy” by creating enormous pressures for increases in local rates.

As Ameritech argues above, the only way to spur efficient entry is to allow the competitive process to dictate winners and losers. Reciprocal compensation for ISP traffic co-opts the competitive process. It delivers the entire ISP market to one sector of the local exchange industry, not because that sector is more efficient, but because that sector has unique access to an enormous subsidy that can be used to defray costs and lure ISP customers.

**(c) ISP-Related Reciprocal Compensation Leads to Irrational Pricing**

ISP-related reciprocal compensation also leads to grossly irrational pricing on every front. First, it compounds the losses already incurred by LECs that originate ISP traffic. As Ameritech demonstrated in its comments, Ameritech's costs of originating ISP access exceed its revenues by an average of about \$9 or \$10 per month even for end users that have purchased second lines exclusively for ISP access.<sup>47</sup> If Ameritech is required to pay reciprocal compensation for ISP traffic at prevailing rates of \$.009 per minute, the gap between Ameritech's costs and revenues widens to about \$30 per customer per month. Of course, as Internet use continues to explode, so, too would the gap between Ameritech's costs and revenues. Thus, even if the reciprocal compensation rate is reduced, reciprocal compensation would still increase exponentially the losses Ameritech incurs from the origination of dial-up ISP access. By widening the gap between

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<sup>47</sup> See Ameritech Comments, Attachment A (showing a shortfall of between \$4.77 and \$15.25 per end user per month in each of its states).

costs and revenues, ISP-related reciprocal compensation takes an irrational scheme (the ISP access charge exemption) and makes it even more irrational.<sup>48</sup>

ISP-related reciprocal compensation also leads to irrational compensation of CLECs. As Ameritech explains above, it does not merely give CLECs an opportunity to recover their costs, but an opportunity to tap into what a Wall Street analyst calls “gargantuan arbitrage.” It enables them, for example, to earn \$3.125 million on costs of \$267,000.

Finally, ISP-related reciprocal compensation breeds irrational pricing schemes for ISP services. Because CLECs recover their costs plus an exorbitant profit from the originating LEC, they are able to offer uneconomic discounts or even free access to entice ISP business. They may even pay the ISP for the privilege of locating a switch in front of the ISP server.

These are not hypothetical scenarios. Since 99% of Global NAPs’ first quarter revenues in Massachusetts last year were from reciprocal compensation payments, quite obviously, Global NAPs was not charging the ISPs that enabled Global NAPs to obtain those revenues. If it were, it would have received more than one percent of its total revenue from sources other than reciprocal

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<sup>48</sup> The affidavit of Lee Selwyn, attached to Global NAPs’ Comments assumes that “an ILEC handing off ISP-bound traffic that is rated as ‘local’ to a CLEC will collect usage revenue from the calling The party.” Global NAPs Comments, Exhibit 2, Affidavit of Lee Selwyn, para. 15. That is largely untrue. Selwyn assumes further that CLECs receive no revenue at all from their ISP customers. That may be true, but, to the extent it is, it is purely a consequence of the pricing distortions made possible by reciprocal compensation. There is no reason why CLECs cannot and should not charge their ISP customers cost-based rates, and without a reciprocal compensation subsidy, they presumably will do so. Therefore, suggestions that the unavailability of reciprocal compensation would lead CLECs uncompensated for their service to ISPs lack credence.



compensation. Other examples of irrational pricing schemes were documented by Bell Atlantic in a recent filing before the New York State Public Service Commission. In that filing, Bell Atlantic referenced several reports that CLECs are offering to share reciprocal compensation revenues with ISPs (*i.e.*, offering cash back) and a quote from a Buffalo-area executive boasting that “[e]very single ISP ... in Buffalo is in on this deal.”<sup>49</sup>

The irrational pricing spawned by ISP-related reciprocal compensation has pernicious effects. As noted above, it thwarts local competition, rewards inefficient entry, and impedes efficient entry. It also distorts consumer behavior by encouraging inefficient use of the public-switched network. Since end users almost always pay flat rates for their dial-up Internet access, and ISPs pay little or nothing at all to connect to those users, neither the end user nor the ISP is given proper incentives to rationalize Internet usage.<sup>50</sup> The resulting overuse of Internet services, in turn, requires unnecessary and inefficient network investment to accommodate the additional traffic.

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<sup>49</sup> ACC National Telecom Corp. *Blocking Obligations for Chatline Services*, New York State Public Service Commission, Case No. 98-C-1273, Bell Atlantic – New York Comments at 7-9 (filed March 15, 1999).

<sup>50</sup> See Public Utility Commission of Texas Comments at 7: “[T]here is an inherent conflict between compensation methods that are usage sensitive and end-user charges that are flat-rate. The flat rate-end-user has no incentive to conserve on calls to its ISP that are terminated by an intervening LEC; and the originating LEC has no opportunity to recover costs incurred when compensating a terminating carrier.”

**(d) Reciprocal Compensation Discourages Investment in Advanced Services.**

Because ISP-related reciprocal compensation is available only on dial-up ISP traffic, it reduces the incentives of CLECs and their ISP customers to deploy advanced network capabilities, such as xDSL services. While CLECs claim otherwise, their claim defies logic. Reciprocal compensation for dial-up ISP traffic provides CLECs with a huge arbitrage opportunity; it *necessarily* distorts CLEC incentives to deploy advanced services. Likewise, reciprocal compensation offers ISPs the opportunity to receive subsidized access service from a CLEC, a subsidy that is forfeited if the ISP relies on xDSL or other advanced services to connect to its customers. It thus necessarily affects ISP incentives to deploy those services. In this respect, as well, it is contrary to the goals of the Act and of this proceeding.

For these reasons, the Commission should reject CLEC reciprocal compensation proposals. It should rule that, just as originating LECs must look to their own customers for cost recovery, so too should ISP LECs, rejecting inter-carrier compensation at this time.

**B. If the Commission Nevertheless Requires Reciprocal or Inter-Carrier Compensation, it Must Treat Payments Made Pursuant to that Requirement as Interstate Costs.**

If the Commission, nevertheless, requires originating LECs to pay inter-carrier compensation to ISP LECs, the Commission must treat such payments as

interstate costs to be recovered through interstate revenues. Although CLECs cavalierly suggest that state commissions can adjust consumer rates to address any disparity between originating LEC revenues and costs, state commissions make clear that they firmly oppose any Commission requirements that will burden intrastate ratepayers.<sup>51</sup> They argue that, because ISP traffic is jurisdictionally interstate, the costs associated with that traffic must be recovered from interstate revenues. This argument signals their unwillingness to adjust local rates to cover the costs of any inter-carrier compensation regime.

It would be unfair and improper to place originating LECs in the middle of a jurisdictional impasse between the Commission and the states. If the Commission imposes or authorizes additional costs on LECs that originate ISP traffic, it must establish a mechanism by which they reasonably have the opportunity to recover those costs. Anything less would be manifestly arbitrary, capricious, and confiscatory.

**C. The Commission May Not Require That Inter-Carrier Compensation Issues be Addressed in Section 251/252 Negotiations and Arbitrations.**

In its comments, Ameritech explained in detail why the Commission's proposal that inter-carrier compensation for ISP traffic be addressed in the context of section 251/252 negotiations and arbitrations is inconsistent with the

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<sup>51</sup> See, e.g. Comments of the State Members of the Federal-State Joint Board on Separations at 3-4; Public Utility Commission of Texas Comments at 9; Indiana Utility Regulatory Commission Comments at 3-6; Vermont Public Service Board Comments at 12-13.

law. The comments only underscore this point. Vermont, for example, notes that “some states may conclude that the [proposed] structure, on its face, violates 47 U.S.C. § 152(b).”<sup>52</sup>

CLECs, as well, effectively concede that inter-carrier compensation cannot be shoe-horned into the section 251/252 process, though they do so unwittingly.<sup>53</sup> For example, Global NAPs admits that “if ISP-bound traffic is not legally subject to Section 251(b)(5), while states may voluntarily undertake to resolve disputes between ILECs and CLECs regarding such traffic, there would not appear to be any obvious legal basis for transferring authority to them to do so, or to require or encourage them to do so.”<sup>54</sup> Global NAPs does not explain on what basis a state may *voluntarily* decide to regulate interstate access traffic, and, of course, it may not, but that is beside the point: it concedes that there appears to be no legal basis for requiring a state to do so.

Similarly, Focal argues that states “may govern matters concerning interstate communications *to the extent they are otherwise within the scope of section*

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<sup>52</sup> Vermont Public Service Board Comments at n. 14.

<sup>53</sup> In the *Notice* the Commission assumes that by adding inter-carrier compensation issues for ISP traffic, CLECs would be spared the inconvenience of having to negotiate more than one agreement with an ILEC. This assumption is based on the false notion that interconnection agreements typically house all contractual arrangements between ILECs and CLECs. Contrary to this assumption, there are a whole range of issues that are addressed in ancillary agreements between ILECs and CLECs. Those issues include, to name a few of many examples, issues relating to local number portability routing service; local number portability query service; inside wire maintenance; line information database (LIDB) service; training services; central office map license agreements; etc.

<sup>54</sup> Global NAPs Comments at 9-10.

251.”<sup>55</sup> And ICG concedes that “states may have no statutorily prescribed role in regulating interstate rates that fall outside Sections 251 and 252.”<sup>56</sup>

Ameritech agrees with these descriptions of the states' authority, and so, too, has the FCC. In explaining the jurisdictional implications of the Telecommunications Act of 1996, the Commission stated:

[W]e hold that section 251 authorizes the FCC to establish regulations regarding both interstate and intrastate aspects of interconnection services, and access to unbundled elements. ...Similarly, we find that the states' authority pursuant to section 252 also extends to both interstate and intrastate matters. Although we recognize that these sections do not contain an explicit grant of intrastate authority to the Commission or of interstate authority to the states, we nonetheless find that this interpretation is the only reasonable way to reconcile the various provisions of sections 251 and 252, and the statute as a whole. As we indicated in the NPRM, it would make little sense in terms of economics or technology to distinguish between interstate and intrastate components for purposes of sections 251 and 252.<sup>57</sup>

As this holding makes clear, the state's authority with respect to interstate matters is limited to matters that fall within the scope of sections 251 and 252. But, as Ameritech noted in its comments, the Commission has already held that inter-carrier compensation is not within the scope of section 251 and 252. Thus, states do not have authority to address these matters.<sup>58</sup>

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<sup>55</sup> Focal Comments at 17 (emphasis added).

<sup>56</sup> ICG Comments at 4-5.

<sup>57</sup> *Local Competition Order*, 11 FCC Rcd at 15544.

<sup>58</sup> AOL argues that the Commission has broad authority to implement sections 251 and 252 and that reciprocal compensation for ISP traffic could be ordered under the auspices of section

AT&T claims, nevertheless, that states have authority to order inter-carrier compensation for interstate access traffic because inter-carrier compensation is, generically, an “interconnection” issue covered by section 251(a). The Commission, however, has held that “interconnection” is distinct from “transport and termination” and that interconnection relates solely to the physical linking of two networks. That being the case, section 251(a) provides no authority by which a state could require inter-carrier compensation for the transport and delivery of ISP traffic.<sup>59</sup>

This is confirmed by section 251(g) of the Act. That section provides that, after the date of enactment, LECs shall continue to provide access services to interexchange carriers and information service providers “in accordance with the same equal access and nondiscriminatory interconnection restrictions and

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251(b)(5). It claims, in this regard, that while the Commission has concluded that ISP traffic is not local, section 251(b)(5) is not, by its terms, limited to local traffic. AOL Comments at 7. This argument is confused. The *ISP Reciprocal Compensation Order* clearly holds that ISP traffic is *outside* the scope of section 251(b)(5) because that provision applies to the transport and termination of telecommunications and ISP traffic does not *terminate* at the ISP server. Moreover, while section 251(b)(5) does not refer to local traffic *per se*, section 251(g) makes clear that section 251(b)(5) does not apply to access traffic, thereby necessarily limiting section 251(b)(5) to local traffic. Of course, the fact that AOL found it necessary to make this flawed argument only underscores the point that states may only arbitrate matters governed by sections 251 and 252.

<sup>59</sup> Any implication in *Iowa Utilities Board v. FCC*, 153 F.3d 523 (8<sup>th</sup> Cir. 1998) that, in exempting ISP traffic from interstate access charges, the FCC established a regime in which it “shares” jurisdiction with the states is misconceived. The ISP access charge exemption did not transfer jurisdiction. The FCC did not permit the states to decide how to regulate ISP traffic. As Vermont notes, however, states were not free to decide, for example, that intrastate access charges should apply. Vermont Public Service Board Comments at 8. The FCC decreed that state business line rates would govern, effectively mirroring those rates. Thus, the FCC has always retained exclusive jurisdiction over ISP traffic.

Some states, including state representatives on the Joint Board, suggest that the *ISP Reciprocal Compensation Order* changes the jurisdictional status of ISP traffic. That, too, is incorrect. These states may have wrongly assumed that the FCC had ceded jurisdiction over ISP traffic, but that was never the case. Indeed, this assumption is belied by the fact that the FCC has, on several occasions, since enacting the exemption considered revoking it.

obligations (including receipt of compensation)” that apply prior to enactment, unless and until those restrictions and obligations are explicitly superseded by the Commission. The legislative history confirms this intent to exclude access traffic from the interconnection and compensation provisions of sections 251 and 252. The S. 652 Conference Report states: “The obligations and procedures prescribed [in Section 251] do not apply to interconnection arrangements between local exchange carriers and telecommunications carriers ...for the purpose of providing interexchange service.”<sup>60</sup>

Finally, ALTS claims that states have authority to handle “any open issue” presented to them; hence states may arbitrate inter-carrier compensation disputes presented to them.<sup>61</sup> This argument ignores that, as noted in Ameritech’s comments, LECs have no obligation under the Act to negotiate inter-carrier compensation issues for interstate access traffic.<sup>62</sup> Since inter-carrier compensation issues for interstate access traffic need not be negotiated in a section 251/252 negotiation, these issues could not properly be presented as open issues for arbitration.

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<sup>60</sup> Conference Report on S.652, Report 104-458, 104 Cong., 2d Sess. at 117. *See* SBC Comments at 6-7.

<sup>61</sup> ALTS Comments at 7.

<sup>62</sup> Ameritech comments at 17.

### III. Conclusion

It is understandable why CLECs continue to seek reciprocal compensation for ISP traffic: to them this boondoggle represents the mother of all subsidies – a “gravy train,” in the words of a Wall Street Analyst.<sup>63</sup> But CLEC arguments notwithstanding, a reciprocal compensation regime for ISP traffic is antithetical to every one of the stated goals of this proceeding, as well as the overarching goals of the Act. It inhibits the development of local competition, particularly competition for residential consumers; distorts entry and investment incentives; institutionalizes irrational pricing and spawns irrational pricing schemes; and impedes investment in advanced infrastructure.

It is not just inflated reciprocal compensation payments, however, that are contrary to the goals of the Act and of this proceeding. Fundamentally, there is no public policy basis for any inter-carrier compensation for ISP traffic. ISPs purchase significant network capacity from the LECs that serve them. LECs ought to compete on the merits for the opportunity to provide this capacity. An inter-carrier compensation regime would effectively preclude such competition because it enables LECs to look to their competitors, rather than their customers, for cost recovery. Particularly given that, even without inter-carrier compensation obligations, LECs do not cover their costs when they originate ISP

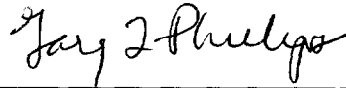
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<sup>63</sup> *Legg Mason report, supra.*



traffic, compounding their losses by requiring them to finance their competitors' service would be arbitrary, capricious, and confiscatory.

Respectfully Submitted,



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Gary L. Phillips  
Counsel for Ameritech  
1401 H Street, N.W. #1020  
Washington, D.C. 20005  
(202) 326-3817

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## Cost vs. Revenue Analysis for a LEC Providing Service to an End User of an ISP Served by Another LEC

### ILLINOIS

#### COST INPUT VALUES:

\$9.71	Basic Residence Voice Grade Loop Cost
\$5.01	Basic Residence Voice Grade Switch Port Cost
\$9.21	Basic Business Voice Grade Loop Cost
\$5.01	Basic Business Voice Grade Switch Port Cost
\$0.14	Basic Voice Grade Cross-Connect Cost
\$0.003746	End Office Switching Cost per MOU
\$0.001072	Tandem Switching Cost per MOU
\$0.000201	Transport Termination Cost per MOU
\$0.000013	Transport Minute/Mile Cost per MOU
50%	Percent Calls Tandem Routed
20	Avg Transport miles per call
\$0.004844	(computed) Network cost per Minute for LEC Serving End User
19.40%	Wholesale Resale Discount Percentage (Retailing Costs)

#### REVENUE INPUT VALUES:

\$7.66	Monthly Rate for basic Residence Access Line
\$5.40	Monthly Rate for Non-Primary Residence EUCL (FCC)
\$0.06	Monthly Rate for Non-Primary Residence EUCL and PICC (State)
\$10.09	Monthly Rate for basic Business Access Line
\$5.40	Monthly Rate for Multiline Business EUCL (FCC)
\$0.06	Monthly Rate for Multiline Business EUCL and PICC (State)
\$0.0411	Per-Call Rate for Residence Local Call to ISP
\$0.4150	Per-Call Rate for Business Local Call to ISP

#### OTHER INPUT VALUES:

26	Average Minutes per ISP Call
39	Online Hours per Month for End User
90	(computed) Calls per Month for End User
18%	Percentage of ISP Access Traffic Originating from Business End Users

### RESULTS:

\$18.32	Monthly Fixed Cost Per End User for LEC Serving End User
\$14.06	Monthly Usage Cost Per End User for LEC Serving End User
\$13.55	Monthly Fixed Revenues Per End User for LEC Serving End User
\$9.76	Monthly Usage Revenues Per End User for LEC Serving End User

(\$4.77)	Monthly Fixed Surplus or (Shortfall) Per End User for LEC Serving End User
(\$4.30)	Monthly Usage Surplus or (Shortfall) Per End User for LEC Serving End User
(\$9.07)	Monthly Total Surplus or (Shortfall) Per End User for LEC Serving End User

\$0.0163	Cost to Originate 3-1/2 Minute Voice Call (Switching Only)
\$0.0210	Cost to Originate 3-1/2 Minute Voice Call (Switching plus Transport)
\$0.1208	Cost to Originate 26 Minute Internet Call (Switching Only)
\$0.1562	Cost to Originate 26 Minute Internet Call (Switching plus Transport)

## Cost vs. Revenue Analysis for a LEC Providing Service to an End User of an ISP Served by Another LEC

### INDIANA

#### COST INPUT VALUES:

\$8.33	Basic Residence Voice Grade Loop Cost
\$5.34	Basic Residence Voice Grade Switch Port Cost
\$8.32	Basic Business Voice Grade Loop Cost
\$5.34	Basic Business Voice Grade Switch Port Cost
\$0.14	Basic Voice Grade Cross-Connect Cost
\$0.004097	End Office Switching Cost per MOU
\$0.000307	Tandem Switching Cost per MOU
\$0.000102	Transport Termination Cost per MOU
\$0.000005	Transport Minute/Mile Cost per MOU
50%	Percent Calls Tandem Routed
20	Avg Transport miles per call
\$0.004504	(computed) Network cost per Minute for LEC Serving End User
21.46%	Wholesale Resale Discount Percentage (Retailing Costs)

#### REVENUE INPUT VALUES:

\$12.56	Monthly Rate for basic Residence Access Line
\$6.07	Monthly Rate for Non-Primary Residence EUCL (FCC)
\$1.50	Monthly Rate for Non-Primary Residence EUCL and PICC (State)
\$43.07	Monthly Rate for basic Business Access Line
\$6.31	Monthly Rate for Multiline Business EUCL (FCC)
\$8.20	Monthly Rate for Multiline Business EUCL and PICC (State)
\$0.000	Per-Call Rate for Residence Local Call to ISP
\$0.000	Per-Call Rate for Business Local Call to ISP

#### OTHER INPUT VALUES:

26	Average Minutes per ISP Call
39	Online Hours per Month for End User
90	(computed) Calls per Month for End User
18%	Percentage of ISP Access Traffic Originating from Business End Users

### RESULTS:

\$17.58	Monthly Fixed Cost Per End User for LEC Serving End User
\$13.42	Monthly Usage Cost Per End User for LEC Serving End User
\$26.88	Monthly Fixed Revenues Per End User for LEC Serving End User
\$0.00	Monthly Usage Revenues Per End User for LEC Serving End User

\$9.30	Monthly Fixed Surplus or (Shortfall) Per End User for LEC Serving End User
(\$13.42)	Monthly Usage Surplus or (Shortfall) Per End User for LEC Serving End User
(\$4.12)	Monthly Total Surplus or (Shortfall) Per End User for LEC Serving End User

\$0.0183	Cost to Originate 3-1/2 Minute Voice Call (Switching Only)
\$0.0201	Cost to Originate 3-1/2 Minute Voice Call (Switching plus Transport)
\$0.1356	Cost to Originate 26 Minute Internet Call (Switching Only)
\$0.1491	Cost to Originate 26 Minute Internet Call (Switching plus Transport)

## Cost vs. Revenue Analysis for a LEC Providing Service to an End User of an ISP Served by Another LEC

### MICHIGAN

#### COST INPUT VALUES:

\$12.60	Basic Residence Voice Grade Loop Cost
\$2.27	Basic Residence Voice Grade Switch Port Cost
\$12.48	Basic Business Voice Grade Loop Cost
\$2.27	Basic Business Voice Grade Switch Port Cost
\$0.17	Basic Voice Grade Cross-Connect Cost
\$0.004053	End Office Switching Cost per MOU
\$0.000698	Tandem Switching Cost per MOU
\$0.000260	Transport Termination Cost per MOU
\$0.000006	Transport Minute/Mile Cost per MOU
50%	Percent Calls Tandem Routed
20	Avg Transport miles per call
\$0.004912	(computed) Network cost per Minute for LEC Serving End User
19.96%	Wholesale Resale Discount Percentage (Retailing Costs)

#### REVENUE INPUT VALUES:

\$12.89	Monthly Rate for basic Residence Access Line
\$5.62	Monthly Rate for Non-Primary Residence EUCL (FCC)
\$2.95	Monthly Rate for Non-Primary Residence EUCL and PICC (State)
\$13.18	Monthly Rate for basic Business Access Line
\$5.62	Monthly Rate for Multiline Business EUCL (FCC)
\$2.85	Monthly Rate for Multiline Business EUCL and PICC (State)
\$0.000	Per-Call Rate for Residence Local Call to ISP
\$0.0853	Per-Call Rate for Business Local Call to ISP

#### OTHER INPUT VALUES:

26	Average Minutes per ISP Call
39	Online Hours per Month for End User
90	(computed) Calls per Month for End User
18%	Percentage of ISP Access Traffic Originating from Business End Users

### RESULTS:

\$18.77	Monthly Fixed Cost Per End User for LEC Serving End User
\$14.36	Monthly Usage Cost Per End User for LEC Serving End User
\$21.49	Monthly Fixed Revenues Per End User for LEC Serving End User
\$1.38	Monthly Usage Revenues Per End User for LEC Serving End User

\$2.72	Monthly Fixed Surplus or (Shortfall) Per End User for LEC Serving End User
(\$12.98)	Monthly Usage Surplus or (Shortfall) Per End User for LEC Serving End User
(\$10.26)	Monthly Total Surplus or (Shortfall) Per End User for LEC Serving End User

\$0.0177	Cost to Originate 3-1/2 Minute Voice Call (Switching Only)
\$0.0215	Cost to Originate 3-1/2 Minute Voice Call (Switching plus Transport)
\$0.1317	Cost to Originate 26 Minute Internet Call (Switching Only)
\$0.1596	Cost to Originate 26 Minute Internet Call (Switching plus Transport)

## Cost vs. Revenue Analysis for a LEC Providing Service to an End User of an ISP Served by Another LEC

<b>OHIO</b>
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**COST INPUT VALUES:**

\$8.48	Basic Residence Voice Grade Loop Cost
\$4.63	Basic Residence Voice Grade Switch Port Cost
\$8.25	Basic Business Voice Grade Loop Cost
\$4.63	Basic Business Voice Grade Switch Port Cost
\$0.15	Basic Voice Grade Cross-Connect Cost
\$0.003815	End Office Switching Cost per MOU
\$0.000660	Tandem Switching Cost per MOU
\$0.000155	Transport Termination Cost per MOU
\$0.000006	Transport Minute/Mile Cost per MOU
50%	Percent Calls Tandem Routed
20	Avg Transport miles per call
\$0.004498	(computed) Network cost per Minute for LEC Serving End User
20.29%	Wholesale Resale Discount Percentage (Retailing Costs)

**REVENUE INPUT VALUES:**

\$14.40	Monthly Rate for basic Residence Access Line
\$5.97	Monthly Rate for Non-Primary Residence EUCL (FCC)
\$0.13	Monthly Rate for Non-Primary Residence EUCL and PICC (State)
\$21.42	Monthly Rate for basic Business Access Line
\$5.97	Monthly Rate for Multiline Business EUCL (FCC)
\$0.13	Monthly Rate for Multiline Business EUCL and PICC (State)
\$0.000	Per-Call Rate for Residence Local Call to ISP
\$0.0834	Per-Call Rate for Business Local Call to ISP

**OTHER INPUT VALUES:**

26	Average Minutes per ISP Call
39	Online Hours per Month for End User
90	(computed) Calls per Month for End User
18%	Percentage of ISP Access Traffic Originating from Business End Users

**RESULTS:**

\$16.58	Monthly Fixed Cost Per End User for LEC Serving End User
\$13.20	Monthly Usage Cost Per End User for LEC Serving End User
\$21.76	Monthly Fixed Revenues Per End User for LEC Serving End User
\$1.35	Monthly Usage Revenues Per End User for LEC Serving End User

\$5.18	Monthly Fixed Surplus or (Shortfall) Per End User for LEC Serving End User
(\$11.85)	Monthly Usage Surplus or (Shortfall) Per End User for LEC Serving End User
(\$6.67)	Monthly Total Surplus or (Shortfall) Per End User for LEC Serving End User

\$0.0168	Cost to Originate 3-1/2 Minute Voice Call (Switching Only)
\$0.0197	Cost to Originate 3-1/2 Minute Voice Call (Switching plus Transport)
\$0.1244	Cost to Originate 26 Minute Internet Call (Switching Only)
\$0.1467	Cost to Originate 26 Minute Internet Call (Switching plus Transport)

## Cost vs. Revenue Analysis for a LEC Providing Service to an End User of an ISP Served by Another LEC

### **WISCONSIN**

#### COST INPUT VALUES:

\$10.90	Basic Residence Voice Grade Loop Cost
\$3.71	Basic Residence Voice Grade Switch Port Cost
\$10.90	Basic Business Voice Grade Loop Cost
\$6.25	Basic Business Voice Grade Switch Port Cost
\$0.19	Basic Voice Grade Cross-Connect Cost
\$0.004241	End Office Switching Cost per MOU
\$0.000704	Tandem Switching Cost per MOU
\$0.000188	Transport Termination Cost per MOU
\$0.000014	Transport Minute/Mile Cost per MOU
50%	Percent Calls Tandem Routed
20	Avg Transport miles per call
\$0.005155	(computed) Network cost per Minute for LEC Serving End User
19.40%	Wholesale Resale Discount Percentage (Retailing Costs)

#### REVENUE INPUT VALUES:

\$5.75	Monthly Rate for basic Residence Access Line
\$5.65	Monthly Rate for Non-Primary Residence EUCL (FCC)
\$0.30	Monthly Rate for Non-Primary Residence EUCL and PICC (State)
\$14.85	Monthly Rate for basic Business Access Line
\$5.65	Monthly Rate for Multiline Business EUCL (FCC)
\$0.30	Monthly Rate for Multiline Business EUCL and PICC (State)
\$0.050	Per-Call Rate for Residence Local Call to ISP
\$0.100	Per-Call Rate for Business Local Call to ISP

#### OTHER INPUT VALUES:

26	Average Minutes per ISP Call
39	Online Hours per Month for End User
90	(computed) Calls per Month for End User
18%	Percentage of ISP Access Traffic Originating from Business End Users

### **RESULTS:**

\$18.93	Monthly Fixed Cost Per End User for LEC Serving End User
\$14.97	Monthly Usage Cost Per End User for LEC Serving End User
\$13.34	Monthly Fixed Revenues Per End User for LEC Serving End User
\$5.31	Monthly Usage Revenues Per End User for LEC Serving End User

(\$5.59)	Monthly Fixed Surplus or (Shortfall) Per End User for LEC Serving End User
(\$9.66)	Monthly Usage Surplus or (Shortfall) Per End User for LEC Serving End User
(\$15.25)	Monthly Total Surplus or (Shortfall) Per End User for LEC Serving End User

\$0.0184	Cost to Originate 3-1/2 Minute Voice Call (Switching Only)
\$0.0224	Cost to Originate 3-1/2 Minute Voice Call (Switching plus Transport)
\$0.1368	Cost to Originate 26 Minute Internet Call (Switching Only)
\$0.1663	Cost to Originate 26 Minute Internet Call (Switching plus Transport)

**Cost vs. Revenue Analysis for a LEC Providing Service  
to an End User of an ISP Served by Another LEC**

**5-STATE ARITHMETIC AVERAGE**

COST INPUT VALUES:

\$10.00	Basic Residence Voice Grade Loop Cost
\$4.19	Basic Residence Voice Grade Switch Port Cost
\$9.83	Basic Business Voice Grade Loop Cost
\$4.70	Basic Business Voice Grade Switch Port Cost
\$0.16	Basic Voice Grade Cross-Connect Cost
\$0.003990	End Office Switching Cost per MOU
\$0.000688	Tandem Switching Cost per MOU
\$0.000181	Transport Termination Cost per MOU
\$0.000009	Transport Minute/Mile Cost per MOU
50%	Percent Calls Tandem Routed
20	Avg Transport miles per call
\$0.004782	(computed) Network cost per Minute for LEC Serving End User
20.10%	Wholesale Resale Discount Percentage (Retailing Costs)

REVENUE INPUT VALUES:

\$10.65	Monthly Rate for basic Residence Access Line
\$5.74	Monthly Rate for Non-Primary Residence EUCL (FCC)
\$0.99	Monthly Rate for Non-Primary Residence EUCL and PICC (State)
\$20.52	Monthly Rate for basic Business Access Line
\$5.79	Monthly Rate for Multiline Business EUCL (FCC)
\$2.31	Monthly Rate for Multiline Business EUCL and PICC (State)
\$0.018	Per-Call Rate for Residence Local Call to ISP
\$0.137	Per-Call Rate for Business Local Call to ISP

OTHER INPUT VALUES:

26	Average Minutes per ISP Call
39	Online Hours per Month for End User
90	(computed) Calls per Month for End User
18%	Percentage of ISP Access Traffic Originating from Business End Users

**RESULTS:**

\$18.04	Monthly Fixed Cost Per End User for LEC Serving End User
\$14.00	Monthly Usage Cost Per End User for LEC Serving End User
\$19.40	Monthly Fixed Revenues Per End User for LEC Serving End User
\$3.56	Monthly Usage Revenues Per End User for LEC Serving End User

\$1.37	Monthly Fixed Surplus or (Shortfall) Per End User for LEC Serving End User
(\$10.44)	Monthly Usage Surplus or (Shortfall) Per End User for LEC Serving End User
(\$9.07)	Monthly Total Surplus or (Shortfall) Per End User for LEC Serving End User

\$0.0175	Cost to Originate 3-1/2 Minute Voice Call (Switching Only)
\$0.0209	Cost to Originate 3-1/2 Minute Voice Call (Switching plus Transport)
\$0.1299	Cost to Originate 26 Minute Internet Call (Switching Only)
\$0.1556	Cost to Originate 26 Minute Internet Call (Switching plus Transport)

CERTIFICATE OF SERVICE

I, Anisa A. Latif, do hereby certify that a copy of **Ameritech Reply** has been served on the parties attached via first class mail - postage prepaid on this 27<sup>th</sup> day of April 1999.

By: Anisa A. Latif  
Anisa A. Latif



Mark Stachiw, Esquire  
AirTouch Paging  
3 Forest Plaza  
12221 Merit Drive, Suite 910  
Dallas, TX 75251-2243

George Vradenburg, III      Jill A. Lesser  
Steven N. Teplitz  
America Online, Inc.  
1101 Connecticut Avenue, NW  
Suite 400  
Washington, DC 20036

Donna N. Lampert  
Donna N. Lampert Associated, PC  
Counsel for America Online, Inc.  
701 Pennsylvania Avenue, NW  
Suite 200  
Washington, DC 20004

William Page Montgomery  
Montgomery Consulting  
Counsel for ALTS  
2903 Alta Laguna Blvd  
Laguna Beach, CA 92651

Emily M. Williams  
ALTS  
888 17<sup>th</sup> Street, NW  
Suite 900  
Washington, DC 20006

David L. Lawson      James P. Young  
Daniel Meron      Rudolph M. Kammerer  
Sidley & Austin  
Attorneys for AT&T Corp.  
1722 Eye Street, NW  
Washington, DC 20006

Mark C. Roseblum  
Stephen C. Garavito  
AT&T Corp.  
295 North Maple Avenue  
Room 325G1  
Basking Ridge, NJ 07920

M. Robert Sutherland  
Richard M. Sbaratta  
Attorneys for BellSouth Corporation  
1155 Peachtree Street, NE  
Suite 1700  
Atlanta, GA 30309

Lawrence W. Katz  
Donna M. Epps  
Attorneys for Bell Atlantic  
1320 North Court House Road  
8<sup>th</sup> Floor  
Arlington, VA 22201

David Ellen  
Cablevision Lightpath, Inc.  
1111 Stewart Avenue  
Bethpage, NY 11714

Laura H. Phillips      J.G. Harrington  
Dow, Lohnes & Albertson, PLLC  
Attorneys for Cox Communications, Inc.  
1200 New Hampshire Ave, NW  
Suite 800  
Washington, DC 20036

Carol Ann Bischoff      Terry Monroe  
The Competitive Telecommunications Assoc.  
1900 M Street, NW  
Suite 800  
Washington, DC 20036

Robert J. Aamoth      Steven A. Augustino  
John J. Heitmann  
Kelley Drye & Warren LLP  
Attorneys for CompTel  
1200 19<sup>th</sup> Street, NW      5<sup>th</sup> Floor  
Washington, DC 20036

Caressa D. Benet      Kenneth C. Johnson  
Bennet & Bennet, PLLC  
Analysts for CT Cube, Inc and Leaco Rural  
Telephone Cooperative, Inc.  
1019 19<sup>th</sup> Street, NW Suite 500  
Washington, DC 20036

Richard M. Rindler  
Patrick J. Donovan  
Swidler Berlin Shereff Friedman LLP  
Counsel for CTSI, Inc.  
3000 K Street, NW Suite 300  
Washington, DC 20007

Dana Frix      Pamela S. Arluk  
Swidler Berlin Shereff Friedman LLP  
Counsel for Choice One Communications, Inc.  
3000 K Street, NW Suite 300  
Washington, DC 20007

Ronald L. Plessner      Mark O'Connor  
Piper & Marbury, LLP  
Counsel for Commercial Internet eXchange  
Assoc  
1200 19<sup>th</sup> Street, NW      Suite 700  
Washington, DC 20036

Christopher J. Wilson  
Cincinnati Bell Telephone Company  
201 East 4<sup>th</sup> Street  
Room 102-620  
Cincinnati, OH 45201

Eric J. Branfman  
Swidler Berlin Shereff Friedman, LLP  
Counsel for CoreComm Limited  
3000 K Street, NW  
Suite 300  
Washington, DC 20007

Cynthia B. Miller  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399

Michael J. Shortley, III  
Frontier Communications  
180 South Clinton Avenue  
Rochester, NY 14646

Richard Metzger  
Focal Communications Corporation  
1120 Vermont Avenue, NW  
Terrace Level  
Washington, DC 20005

Richard M. Rindler      Patrick J. Donovan  
Swidler Berlin Shereff Friedman LLP  
Counsel for Focal Communications, Inc.  
3000 K Street, NW  
Suite 300  
Washington, DC 20007

Christopher W. Savage      Karyin D. Stanley  
Cole, Raywid & Braverman, LLP  
Attorneys for Global Naps, Inc.  
1919 Pennsylvania Avenue, NW Suite 200  
Washington, DC 20006

William J. Rooney, Jr.  
Global Naps, Inc.  
10 Montgomery Road  
Quincy, MA 02169

Gail Polivy  
GTE Services Corporation  
1850 M Street, NW  
Suite 1200  
Washington, DC 20036

Barry Pineles  
GST Telecom Inc.  
4001 Main Street  
Vancouver, WA 98663

George N. Barclay  
Michael J. Ettner  
General Services Administration  
1800 F Street, NW  
Room 4002  
Washington, DC 20405

Snavely King Majores O'Connor & Lee, Inc.  
Economic Consultants for General Services  
Administration  
1220 L Street, NW Suite 410  
Washington, DC 20005

Kathy L. Shobert  
General Communication, Inc.  
901 15<sup>th</sup> Street, NW  
Suite 900  
Washington, DC 20005

Kenneth T. Burchett  
GVNW Consulting, Inc.  
8050 SW Warm Springs Street  
Tualatin, OR 97062

Joseph Sutherland  
Indiana Utility Regulatory Commission  
302 West Washington Street  
Suite E306  
Indianapolis, IN 46204

Cindy Z. Schonhaut  
ICG Communications, Inc.  
161 Inverness Drive W  
6<sup>th</sup> Floor  
Englewood, CO 80112

Albert H. Kramer      Robert F. Aldrich  
Dickstein Shapiro Morin & Oshinsky, LLP  
Attorneys for ICG Communications, Inc.  
2101 L Street, NW  
Washington, DC 20037

Jan F. Reimers  
ICORE, Inc.  
326 S. Second Street  
Emmaus, PA 18049

Jonathan E. Canis  
Ross A. Buntrock  
Kelley Drye & Warren LLP  
Attorneys for Intermedia Communications, Inc.  
1200 19<sup>th</sup> Street, NW 5<sup>th</sup> Floor  
Washington, DC 20036

Jonathan Jacob Nadler      Brian J. McHugh  
Squire, Sanders & Dempsey LLP  
Counsel for the Information Technology  
Association of America  
1201 Pennsylvania Avenue, NW  
Washington, DC 20044

Tim Sefton  
Invivo  
600 South Adams  
Suite 210  
Birmingham, MI 48009

Douglas M. Meredith  
John Staurulakis, Inc.  
6315 Seabrook Road  
Seabrook, MD 20706

Angela D. Ledford  
Keep America Connected  
P.O. Box 27911  
Washington, DC 20005

Carmen L. Nieves  
Federation of Hispanic Organizations of the  
Baltimore Metropolitan Area, Inc.  
15 Charles Street Suite 1701  
Baltimore, MD 21201

Sol Del Ande Eaton  
Latin American Women and Supporters  
4501 Havelock Road  
Lanham, MD 20706

Brent Wilber  
League of United Latin American Citizens  
1133 20<sup>th</sup> Street, NW Suite 750  
Washington, DC 20036

Warner H. Sessions  
Telecommunications Advocacy Group  
1150 Connecticut Avenue NW 9<sup>th</sup> Floor  
Washington, DC 20036

Marilyn Howe  
Massachusetts Assistive Technology Partnership  
1295 Boylston Street Suite 310  
Boston, MA 02215

Carmen Nieves  
The Child Health Foundation  
10630 Little Patuxent Parkway  
Suite 126  
Columbia, MD 21044

Patricia T. Hendel  
National Association of Commissions for Women  
8630 Fenton Street Suite 934  
Silver Spring, MD 20910

Garry A. Mendez Jr.  
The National Trust for the Development of Afri  
American Men  
6811 Kenilworth Road  
Riverdale, MD 20737

National Association of Development  
Organizations  
444 North Capitol Street, NW  
Suite 630  
Washington, DC 20001

Jordan Clark  
United Homeowners Association  
655 15<sup>th</sup> Street, NW  
Suite 460  
Washington, DC 20005

Dr. Marta Sotomayor  
National Hispanic Council on Aging  
2713 Ontario Road, NW  
Washington, DC 20009

Anne Werner  
United Seniors Health Cooperative  
409 3<sup>rd</sup> Street, SW  
2<sup>nd</sup> Floor  
Washington, DC 20024

Stan Silverman  
New York Institute of Technology  
Central Islip Campus  
Central Isle, NY 17222

Michael L. Shor  
Richard M. Rindler  
Swidler Berlin Shereff Friedman, LLP  
Counsel for KMC Telecom, Inc.  
3000 K Street, NW Suite 300  
Washington, DC 20007

Pamela L. Reid  
Resources for Independent Living  
1 Hospital Plaza  
Riverside, NJ 08075

Susan M. Eid  
Richard A. Karre  
MediaOne Group, Inc.  
1919 Pennsylvania Avenue, NW Suite 610  
Washington, DC 20006

Richard S. Whitt  
MCI Worldcom, Inc.  
1801 Pennsylvania Avenue, NW  
Washington, DC 20006

Dana K. Joyce  
Marc D. Poston  
Attorneys for the Missouri Public Service  
Commission  
P.O. Box 360  
Jefferson City, MO 65102

Commissioner Thomas L. Welch  
Maine Public Utilities Commission  
242 State Street  
State House Station 18  
Augusta, MA 04333

L. Marie Guillory  
Jill Canfield  
National Telephone Cooperative Association  
2626 Pennsylvania Avenue, NW  
Washington, DC 20037

Commissioner David W. Rolka  
Pennsylvania Public Utility Commission  
North and Commonwealth  
Harrisburg, PA 17105

Lawrence G. Malone  
Public Service Commission of the State of NY  
3 Empire State Plaza  
Albany, NY 12223

Randall B. Lowe                      Julie A. Kaminski  
Reneé Roland Crittendon  
Piper & Marbury, LLP  
Attorneys for Prism Communications Services, Inc.  
1200 19<sup>th</sup> Street, NW Suite 700  
Washington, DC 20036

Ellen S. Levine                      Peter Arth, Jr.  
Lionel B. Wilson  
Attorneys for the People of the State of California  
and the California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

Robert L. Hoggarth  
Angela E. Giancarlo  
Personal Communications Industry Association  
500 Montgomery Street  
Suite 700  
Alexandria, VA 22314

Joseph Kahl  
RCN Telecom Services, Inc.  
105 Carnegie Center  
Princeton, NJ 08540

Richard M. Rindler  
Michael W. Fleming  
Swidler Berlin Shereff Friedman, LLP  
Counsel for RCN Telecom Services, Inc.  
3000 K Street, NW Suite 300  
Washington, DC 20007

Lorinda Ackley-Mazur  
Richmond Telephone Company  
1416 State Road  
Richmond, VA 01254

Douglas S. Denny-Brown  
RNK Inc.  
1044 Central Street  
Stoughton, MA 02072

Leon M. Kestenbaum                      Jay C. Keithley  
H. Richard Juhnke  
Sprint Corporation  
1850 M Street, NW  
11<sup>th</sup> Floor  
Washington, DC 20036

James B. Ramsay  
CC Docket 80-286 Federal-State Joint Board on  
Separations  
P.O. Box 684  
Washington, DC 20044

Commissioner Joan H. Smith  
Oregon Public Utility Commission  
550 Capitol Street, NE  
Salem, OR 97310

Robert M. Lynch      Roger K. Toppins  
Michael J. Zpevak      Kathleen E. Palter  
SBC Communications  
One Bell Plaza      Room 3014  
Dallas, TX 75202

Pat Wood, III      Judy Walsh  
Brett A. Perlman  
Public Utility Commission of Texas  
1701 N. Congress Avenue  
P. O. Box 13326  
Austin, TX 78711

Willkie Farr & Gallagher  
Attorneys for Time Warner Telecom  
3 Lafayette Centre  
1155 21<sup>st</sup> Street, NW  
Washington, DC 20036

David Cosson  
Kraskin, Lesse & Cosson, LLP  
Attorney for Telephone Association of New  
England  
2120 L Street, NW      Suite 520  
Washington, DC 20037

Charles C. Hunter  
Catherine M. Hannan  
Hunter Communications Law Group  
Attorneys for Telecommunications Resellers Assn  
1620 Eye Street, NW      Suite 701  
Washington, DC 20006

William T. Lake      John H. Harwood II  
Lynn R. Charytan      Jonathan J. Frankel  
Wilmer, Cutler & Pickering  
Counsel for US West Communications  
2445 M Street, NW  
Washington, DC 20037

Robert B. McKenna  
Jeffry A. Brueggeman  
US West, Inc.  
1020 19<sup>th</sup> Street, NW  
Washington, DC 20036

Keith Townsend      Lawrence E. Sargent  
Linda Kent      John W. Hunter  
United States Telephone Association  
1401 H Street, NW  
Suite 600  
Washington, DC 20005

Samuel E. Ebbesen  
Virgin Islands Telephone Company  
P. O. Box 6100  
St. Thomas, USVI 00801

Charles H. Kennedy  
Cheryl A. Tritt  
Morrison & Foerster, LLP  
Counsel to Verio, Inc.  
2000 Pennsylvania Avenue, NW  
Washington, DC 20006

Peter Bluhm  
Vermont Public Service Board  
112 State Street  
Drawer 20  
Montpelier, VT 05620

Ray J. Riordan, Jr.  
Wisconsin State Telecommunications Associat  
6602 Normandy Lane  
Madison, WI 53719

Commissioner James M. Posey  
Alaska Public Utilities Commission  
1016 West 6<sup>th</sup> Avenue  
Suite 400  
Anchorage, AK 99501

Chérie R. Kiser                      Gil M. Strobel  
Mintz, Levin, Cohn, Ferris, Glovsky & Popeo, PC  
Attorneys for Cablevision Lightpath, Inc.  
701 Pennsylvania Avenue, NW   Suite 900  
Washington, DC 20004

John R. Raposa  
GTE Service Corporation  
600 Hidden Ridge  
HQE03J27  
Irving, TX 75038

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